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PERUVIAN
OILS & MINERALS
L I M I T E D

1963
ANNUAL
REPORT

PERUVIAN OILS & MINERALS, LIMITED

OFFICERS

J. J. COYLE, President - - - - - Dallas, Texas
J. J. RANKIN, Vice-President and Managing Director Toronto, Ontario
D. CARRERA, Secretary - - - - - Dallas, Texas
W. STEUERMAN, C.A., Treasurer - - - - - Toronto, Ontario

TRANSFER AGENTS AND REGISTRARS

The Sterling Trusts Corporation, Toronto, Ontario
Republic National Bank of Dallas, Dallas, Texas

HEAD OFFICE

Suite 911 - 85 Richmond Street West, Toronto, Ontario

PERUVIAN OFFICE


Edificio Republica, Lima, Peru

UNITED STATES OFFICE

Suite 1021, 1511 Bryan Street, Dallas 1, Texas

BANKERS

Canadian Imperial Bank of Commerce - - - Toronto, Ontario
The Royal Bank of Canada - - - Toronto, Ontario
Chase Manhattan Bank - - - New York, N.Y.
Republic National Bank of Dallas - - - Dallas, Texas
Exchange Bank & Trust Company - - - Dallas, Texas



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PERUVIAN OILS & MINERALS, LIMITED

President's Letter

To Our Shareholders:

Attached are the financial statements of your company for 1963 and the auditors' report thereon.

The company participated in several joint venture oil exploration programs in southwestern Ontario, Canada. One program, initiated during 1963, has resulted in the discovery of a small oilfield on which drilling commenced in January of this year. Production is being obtained from two wells drilled to date. It is expected that further wells will be completed in the ensuing months. Your company's interest in this project is 18.75%.

The company participates, to the extent of a one-third interest, in another syndicate which is carrying on a geophysical and leasing program in southwestern Ontario preparatory to drilling.

A ten percent participation was taken with several major mining companies in a large exploration program conducted in the Eastern Andes.

Oil and gas production from the Pembina properties produced gross income — net of royalties — of \$114,417. Gross recoverable reserves at December 31, 1963 were estimated at 816,637 barrels.

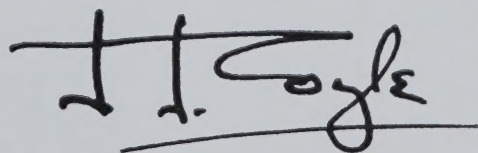
We met with Mobil International in February, 1964, at which time they informed us of a \$60,000,000 Exploration Program that was under consideration for Peru. Your directors felt that your company could not afford to spend their capital to participate in further exploration activities in Peru. Accordingly, we advised them that we would maintain our present carried interest or would sell this interest to them if their offer were in line with our estimate of value. To date we have not received their decision.

There will be many investment possibilities in the Timmins Area of Ontario where Texas Gulf Sulphur made their huge discovery, as several small companies have important holdings. Your directors have authorized the expenditure of \$5,000 to make a thorough investigation of these possibilities.

Your directors feel that your company should diversify its holdings by investing in good growth and income producing opportunities. Several investment situations are under consideration, but no major acquisition will be effected without prior approval of stockholders. You will be supplied all available information along with any recommendation that your directors have to make.

Because of its net cash position, producing oil properties and the speculative possibilities of holdings in Peru, there are many companies that would like to effect a merger with your company. We are informed by sources we consider reliable that an unknown group is trying to gain control of your company through stock purchases. We urge you to exercise the enclosed proxy and return it immediately.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. J. Coyle", with a horizontal line drawn underneath the signature.

President.

May 21, 1964.

PERUVIAN OILS &

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Balance Sheet as at

ASSETS

Current:

Cash:

In Canada	\$ 421,971
In the United States	118,696
In Peru	7,716

Total cash 548,383

Advances (Note 2)	378,438
Accrued interest receivable	3,879
Due from participants in joint ventures	55,407
Income taxes overpaid	195
Other accounts receivable	12,641
Prepaid expenses	5,383

Total current assets 1,004,326

Property and Equipment — at cost less accumulated depreciation and depletion — Schedule 1 .. 676,671

Unrecovered Exploratory and Development Costs (Note 3) 1,193,171

Other Assets:

Compania Minera Toronto S.A. — shares — at cost less amount written off (Note 4) \$	1
Deposits	6,065
Organization expenses	8,658

Total other assets 14,724

TOTAL \$2,888,892

The accompanying notes are an integr

AUDITOR

To the Shareholders of
Peruvian Oils & Minerals, Limited:

We have examined the balance sheet of Peruvian Oils & Minerals, Limited as at December 31, 1963 and the statements of operations and earned surplus and unrecovered exploratory and development costs for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

April 22, 1964.

MINERALS, LIMITED

(Incorporated in the Province of Ontario)

December 31, 1963

LIABILITIES

Current:

Accounts payable and accrued liabilities \$ 82,470

Capital Stock (Note 5):

Authorized — 5,000,000 shares par value \$1.00 each

Issued and outstanding — 2,815,005 shares including
470,000 shares issued for property \$2,815,005
Less net discount 327,420

Net capital stock 2,487,585

Earned Surplus 318,837

Approved on behalf of the Board:

J. J. COYLE, Director.

D. CARRERA, Director.

TOTAL \$2,888,892

Part of the financial statements.

REPORT

In our opinion the accompanying balance sheet and statements of operations and earned surplus and unrecovered exploratory and development costs present fairly the financial position of the company at December 31, 1963 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied, except as indicated in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

DELOITTE, PLENDER, HASKINS & SELLS,
Chartered Accountants.

PERUVIAN OILS & MINERALS, LIMITED

STATEMENT OF OPERATIONS AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1963

Income:

Income from oil and gas production — Schedule 2	\$ 50,673
Interest income	25,378
Total income	<u>76,051</u>

General and Administrative Expenses:

Managing director's salary	\$ 6,000
Accounting, office services and rent	12,000
Dallas office	12,940
Legal and audit	9,689
Transfer agency	8,261
Publicity	10,719
Travel	7,495
Reports to shareholders	4,597
Foreign exchange loss	4,285
Other	4,120
Total general and administrative expenses	<u>80,106</u>

Operating Loss	4,055
Other Charge — write-off of investment in Compania Minera Toronto S.A. (Note 4)	39,396
Net Loss Before Income Taxes	<u>43,451</u>
Provision for Income Taxes (Note 6)	4,206
Net Loss for the Year	<u>47,657</u>
Write-off of the Accumulation of General and Administrative Expense Charges Carried in Unrecovered Exploratory and Development Costs at December 31, 1962 (Note 3)	348,108
	<u>395,765</u>
Earned Surplus, December 31, 1962	714,602
Earned Surplus, December 31, 1963	<u>\$ 318,837</u>

The accompanying notes are an integral part of the financial statements.

PERUVIAN OILS & MINERALS, LIMITED

STATEMENT OF UNRECOVERED EXPLORATORY AND DEVELOPMENT COSTS

FOR THE YEAR ENDED DECEMBER 31, 1963

Balance, December 31, 1962 \$1,458,156

Deduct:

General and administrative expense charges accumulated to December 31, 1962, written off (Note 3)	348,108
	<hr/>
	1,110,048

Exploratory and Development Expenses in Peru:

Annual surface taxes	\$ 30,258
Geological fees and expenses	7,885
Drilling	357
Salaries and wages	9,467
Legal and accounting fees	5,471
Depreciation of furniture and fixtures	299
Interest earned and sundry credits	(1,113)
Foreign exchange adjustments	(6,993)
Other development expenses	26,310
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	71,941

Joint Venture Explorations:

In Canada	\$ 11,863
In Mexico	2,157
	<hr/>
	14,020

Development Expenses in Canada (Alberta):

Water flooding pressure maintenance program —	
Pembina Cardium Unit No. 4	696
Less amortization for the year	3,534
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	(2,838)
Total expenditures during the year	83,123

Balance, December 31, 1963	<hr/>
	\$1,193,171

() Denotes deduction.

The accompanying notes are an integral part of the financial statements.

PERUVIAN OILS & MINERALS, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1963

1. Peruvian soles have been converted to Canadian dollars at the following rates: current assets and current liabilities at the current exchange rate; certain expenditures for oil concessions at the exchange rates prevailing on the dates of payment to the Peruvian Government; other assets and capitalized expenses at the average exchange rates for the calendar years in which the expenditures were made. United States dollars included in cash have been converted to Canadian dollars at the current exchange rate.
2. During the year cash advances of \$378,438 were made in contemplation of the acquisition of interests in radio broadcasting and recording companies in the United States. The company holds promissory notes dated October 1, 1963 with interest at 6% from University Advertising Company and Commercial Recording Corporation in the amount of \$150,000 U.S. each, as security for these advances.

Subsequent to December 31, 1963 the following transactions occurred:

- (a) On January 15, 1964 an amount of \$162,188 was recovered from University Advertising Company and an amount of \$162,188 was recovered from Commercial Recording Corporation.
 - (b) On March 6, 1964 a payment of \$243,000 was made to Commercial Recording Corporation.
 - (c) On April 14, 1964 an amount of \$54,063, representing the balance of the 1963 advances, was received from Gas and Oil Managers Inc.
 - (d) On April 23, 1964 the company reversed its decision to invest in Commercial Recording Corporation and has since been advised that the advance of \$243,000 is to be recovered on or before May 23, 1964.
3. In 1963 the company changed its method of allocating general and administrative expenses. Prior to 1963 a portion of these expenses was capitalized under "Unrecovered Exploratory and Development Costs", whereas in 1963 all general and administrative expenses were charged to operations. If the prior years' method had been used in 1963, the net loss for the year before income taxes would have been decreased by approximately \$23,240.

The accumulation of these expenses capitalized as "Unrecovered Exploratory and Development Costs" as at December 31, 1962 of \$348,108 was written off to surplus in 1963.
 4. Compania Minera Toronto S.A., a Peruvian exploration company, is presently inactive and is expected to be wound up resulting in only a nominal recovery to Peruvian Oils & Minerals, Limited. The company has therefore written off its investment in Compania Minera Toronto S.A.
 5. Incentive options granted to certain executive officers of the company to purchase 100,000 shares at \$1.50 per share and 50,000 shares at \$1.00 per share are outstanding and expire on May 5, 1965 and October 31, 1965 respectively; provision being made for termination of a portion of the option upon the optionee's ceasing to hold office.
 6. Income taxes of \$2,300 which would otherwise have been payable on the income of the year have been deferred by claiming development expenses and capital cost allowances for tax purposes in excess of amounts charged to income in the accounts. The net accumulated amount by which income taxes otherwise payable have been so reduced, including adjustments in estimates of income taxes otherwise payable in prior years, is \$88,600.

PERUVIAN OILS & MINERALS, LIMITED

SCHEDULE 1

SCHEDULE OF PROPERTY AND EQUIPMENT

DECEMBER 31, 1963

South America (Peru):

Oil concessions:

Deposits (net of refunds and recoveries)	\$ 109,068	
Additional cost on concession acquired at auction	389	
Concession title charge	18,414	
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	127,871	

Add:

Shares issued at par for commissions and services relating to investigations and negotiations for oil concessions	70,000	\$ 197,871
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Office furniture and fixtures — at cost	3,992	
Less accumulated depreciation	2,955	1,037
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Total property in South America		198,908
		<hr/>

Western Canada (Alberta):

Oil leases — at cost:

Cash	64,469	
Shares issued at a premium of 25¢ each	500,000	
	<hr/>	
	564,469	
Less accumulated depletion	185,776	378,693
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Machinery and equipment — at cost	137,910	
Less accumulated depreciation	38,840	99,070
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Total property in Canada		477,763
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Total property and equipment		\$ 676,671
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PERUVIAN OILS & MINERALS, LIMITED

SCHEDULE 2

SCHEDULE OF INCOME FROM OIL AND GAS PRODUCTION

FOR THE YEAR ENDED DECEMBER 31, 1963

Sale of crude oil and natural gas		\$ 114,417
Production expenses:		
Operating expenses	\$ 17,024	
Lease rental expenses	1,401	
Field facility and gas collection expenses	12,712	
Insurance and taxes	2,046	
Depletion of oil leases	21,494	
Amortization of development costs	3,534	
Depreciation of machinery and equipment	5,533	
Total production expenses		<u>63,744</u>
Income from Oil and Gas Production		<u><u>\$ 50,673</u></u>

